

# Maricopa County, Arizona

***Do the Right Things Right!***



*Maricopa County Court Tower*

## Internal Audit Performance Report

Fiscal Year 2011

## From the County Auditor's Desk—Fiscal Year 2011



**To:** Andrew Kunasek, Chairman, Board of Supervisors  
Fulton Brock, Supervisor, District I  
Don Stapley, Supervisor, District II  
Max W. Wilson, Supervisor, District IV  
Mary Rose Wilcox, Supervisor, District V

**From:** Ross L. Tate, County Auditor

**Date:** October 28, 2011

Fiscal Year (FY) 2011 was a period of productivity and major achievement for Internal Audit. We appreciate the Board of Supervisors, the Citizen's Audit Advisory Committee, and County administration for their strong, continued support of the County's audit function.

### **Significant Work in FY11**

We published 26 audit reports that included 105 recommendations. Some of the reports we issued are shown below. For a complete summary of our work, see Appendix C on page 24.

- ◆ County Attorney's Office
- ◆ Countywide IT Inventory
- ◆ Court Tower Construction Contract
- ◆ Library District
- ◆ Sheriff's Office

### **Internal Audit Achieves Audit Excellence**

For the second year in a row, Internal Audit received the Government Finance Officers Association Award for Outstanding Achievement in Popular Annual Financial Reporting. This national award recognizes the quality of our Citizens Financial Condition Report.



Chairman Kunasek was pleased with the national recognition. In the County's press release, he commented that "We at Maricopa County want to be an open, accountable government. I want the taxpayers to know how we are spending their money."



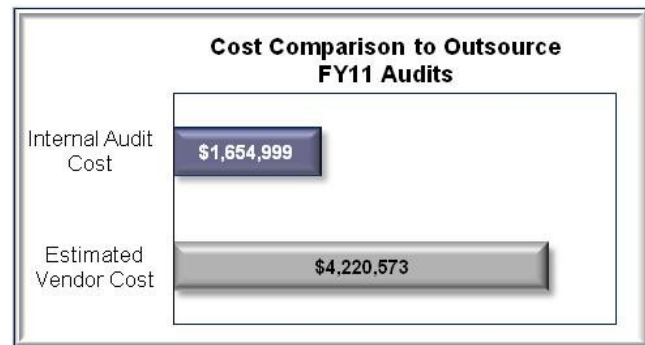
We also received the Knighton Bronze Award from the Association of Local Government Auditors for our Vehicle Usage audit. This international award recognizes the best performance audits by local government audit departments. See page 3.

## **Internal Audit is a Good Investment**

In addition to strengthening the County's internal control environment, Internal Audit identifies hard dollar recoveries and cost savings, while reducing various types of risks.

FY11 audit work would have cost more than twice as much if external auditors had been used instead of Internal Audit staff.

The average cost per audit hour for an external auditor was \$185, compared to \$75 for an internal auditor (includes overhead). See page 12.



## **Emphasizing the Need for a Strong Internal Audit Function**

Bond rating agencies Fitch and Moody's consider the existence of an internal audit function a key component of strong management practices.

Moody's uses the Citizens Financial Condition Report prepared by Internal Audit to evaluate trends and considers the County's audit function a deterrent to fraud.

**Internal Audit strengthens  
Maricopa County by  
promoting strong internal controls,  
deterring fraud, and  
initiating cost recoveries**

## **Credentials for a Strong Internal Audit Function**

Internal Audit staff members take the time to invest the resources to further their education by studying for professional certifications and graduate degrees, resulting in a more qualified auditing staff. In addition, auditors are involved in various professional organizations. In FY11, Ross Tate became President-Elect for the Association of Local Government Auditors (ALGA).



ALGA is an international organization committed to supporting and improving local government auditing through advocacy, collaboration, education and training, and upholding the highest standards of professional ethics.

Mr. Tate chaired and coordinated the 23rd Annual Conference in Charlotte, North Carolina in May 2011. In 2012, the ALGA conference will be held in Maricopa County. Internal Audit was instrumental in winning the bid for that conference, which annually attracts hundreds of auditors from around the nation and Canada.

Audit staff held 12 leadership positions in FY11 and actively participated in a variety of professional service organizations. See page 17.

### **Internal Audit's Mission**

To provide objective information on the County's system of internal controls to the Board of Supervisors so they can make informed decisions and protect the interests of County citizens



### **Internal Audit's Vision**

To promote the effective, efficient, economical, and ethical use of public resources

### **Internal Audit's Motto**

Do the Right Things Right!

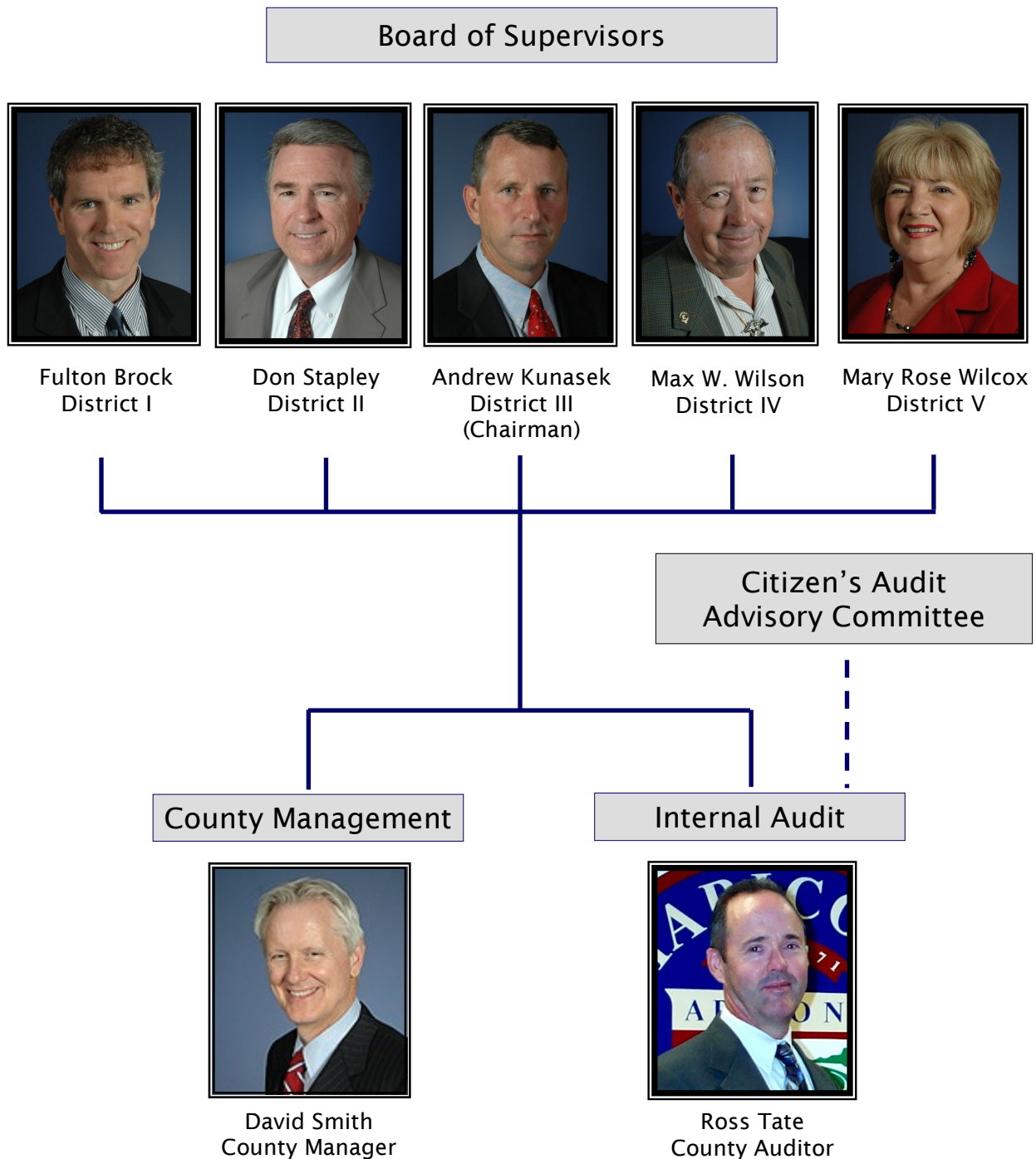
To learn more about Internal Audit, see the Internal Audit Charter (Appendix G, page 37) and the Internal Audit Profile (Appendix H, page 39)

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# Independence

The Maricopa County Internal Audit Department is effectively organized, reporting directly to the Board of Supervisors, with an advisory reporting relationship to a Citizen's Audit Advisory Committee.



The Citizen’s Audit Advisory Committee’s primary function is to assist the Board of Supervisors in fulfilling its oversight responsibilities. The Committee accomplishes this function by reviewing the County’s financial information, the established systems of internal controls, and the audit process.

See Audit Committee Charter (Appendix F, page 35) and Audit Committee Biographies (Appendix I, page 41) .

Citizen’s Audit Advisory Committee



Ralph Lamoreaux  
District I  
(Chair)



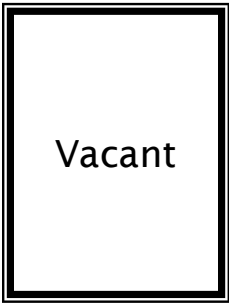
Janet Secor  
District II



Matthew Breecher  
District III



Derek Barber  
District IV



District V



Shelby Scharbach  
Maricopa County  
Chief Financial  
Officer



David Benton  
Maricopa County  
Attorney’s Office



Ross Tate  
Maricopa  
County Auditor



Jay Zsorey  
Office of the  
Auditor General



## GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting



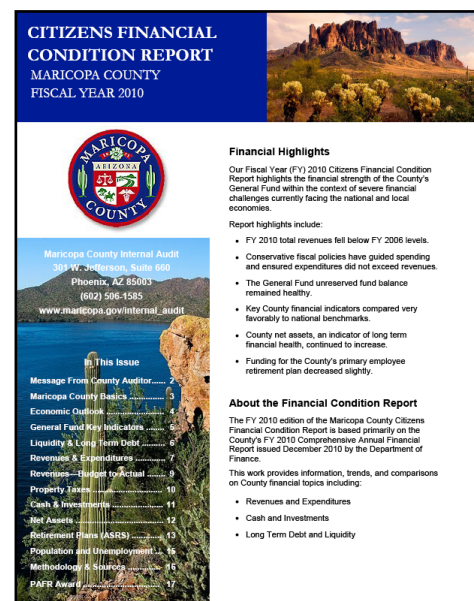
For the second year in a row, the Government Finance Officers Association (GFOA) presented Internal Audit with the Award for Outstanding Achievement in Popular Annual Financial Reporting.

This is a prestigious national award recognizing conformance with the highest standards for the preparation of state and local government popular reports.

In order to receive this award, a government unit must publish a Popular Annual Financial Report. The report must conform to program standards of creativity, presentation, understandability, and reader appeal. Internal Audit received the award for its Citizens Financial Condition Report for FY10.

GFOA is a professional association of state/provincial and local finance officers in the United States and Canada, and has served the public finance profession since 1906.

We have produced the Citizens Financial Condition Report annually since FY98.



Chairman **Andrew Kunasek**, Maricopa County Board of Supervisors, joins Internal Audit to celebrate the GFOA Award for Outstanding Achievement In Popular Annual Financial Reporting



## ALGA Knighton Bronze Award 2010 Best Audit Report



The Association of Local Government Auditors (ALGA) awarded the 2010 Knighton Bronze Award to Maricopa County Internal Audit for our Vehicle Usage audit report. The Knighton Awards recognize the best performance audit reports issued by ALGA members each year.

With over 2,000 members and growing, ALGA is the professional organization of choice for local government audit professionals in the United States, Canada, and several other countries.



*Ross Tate and staff receive the ALGA Knighton Bronze Award from the ALGA Awards Program Committee, represented by Terra Van Andel (far left), and Pam Weipert, Chair (far right)*

The judges said:

*“While this review of vehicle usage resulted in 45 separate departmental reports, the primary report was presented in a succinct and accessible style. The report effectively used charts and graphs and was visually enhanced by using Google Maps to identify mileage and calculate fuel usage findings.”*



*Chairman **Andrew Kunasek**, Maricopa County Board of Supervisors, joins Internal Audit to celebrate the ALGA Knighton Bronze Award*



## Government Finance Officers Association

Award for Outstanding Achievement in Popular Annual Financial Reporting  
*Citizens Financial Condition Report*

2011, 2010



*Internal Audit  
celebrates the  
GFOA Award and the  
ALGA Knighton Bronze  
Award in 2011*

## Association of Local Government Auditors



2010 Best Audit Report: Knighton Bronze Award  
*Vehicle Usage Review*

2008 Best Audit Report: Knighton Bronze Award  
*Air Quality Audit*

2008 Website Gold Award  
*Internal Audit Website*

2007 Best Audit Report: Knighton Gold Award  
*Environmental Services Audit*

*Don Stapley,  
2010 Chairman,  
joins Internal Audit  
to celebrate the  
NACo Award and  
GFOA Award*







## Association of Government Accountants

2006 Certificate of Excellence  
*Service Efforts and Accomplishments*



## National Center for Civic Innovation

2007 Trailblazer Award  
Government Performance Reporting  
Demonstration Grant Program  
*Service Efforts & Accomplishments*



**Max Wilson,**  
2009 Chairman,  
joins Internal Audit  
to celebrate the  
NACo Awards and  
the ALGA Knighton  
Bronze Award

## National Association of Counties

2010 Achievement Award: *Tech Tips Training Program*

2009 Best of Category Award & 2009 Achievement Award: *Internal Controls Video Program*

2006 Achievement Award: *Internet Usage Risk Management*



**Andrew Kunasek,**  
2008 Chairman, joins  
Internal Audit  
to celebrate the  
ALGA Knighton Gold  
Award and the ALGA  
Website Award



## The Institute of Internal Auditors

2006 Recognition of Commitment  
*Professional Excellence, Professional Quality, Professional Outreach*

# Performance Results

## Primary Strategic Goals

Internal Audit's goals are designed with the Board of Supervisors (Board) in mind. Internal Audit provides information so the Board can make informed decisions on the issues they deem most important and provide fiscally responsible public services to citizens.

### Customer Satisfaction

Our new goal is to maintain a 100% customer satisfaction rating from our primary customers: the Board, Chiefs of Staff, and Audit Committee members.

For the past five years we have achieved 100%.



### Audit Plan Completion

We develop the annual audit plan through a formal risk assessment process, with input from the Board and County management.

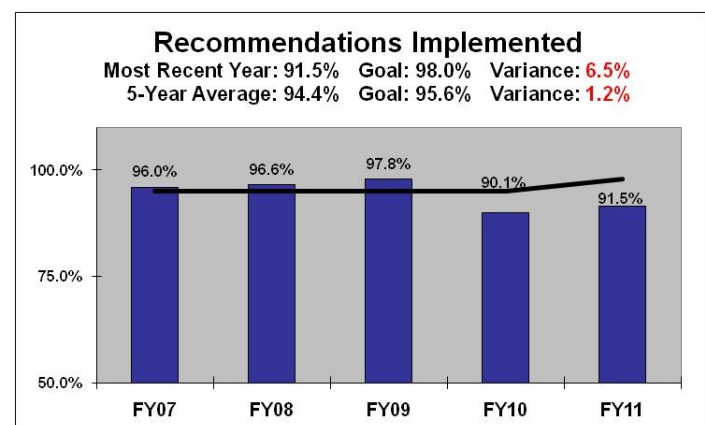
With our new goal, we strive to complete 100% of the Board-approved Audit Plan and report this information to the Board no later than 90 days after fiscal year-end.



### Recommendations Implemented

Change and improvement often begin with audit recommendations; our new goal is to facilitate implementing 98% of audit recommendations within 3 years of being reported.

The FY10 and FY11 decrease is due to a number of FY07 and FY08 recommendations still in process at several County agencies.

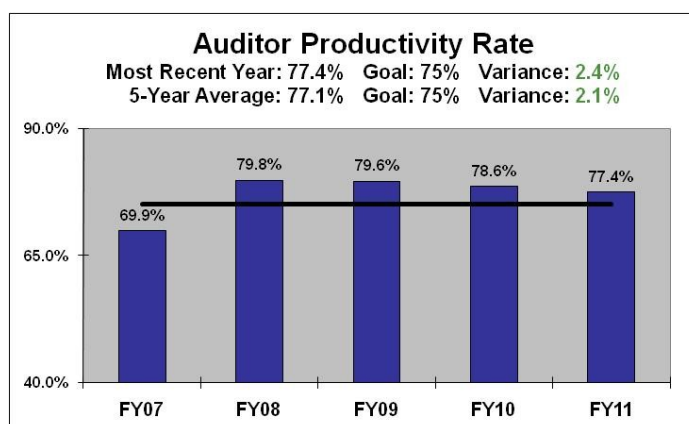


## Secondary Operational Goals

### Productivity

Productive time is considered time spent working directly on audits; our goal is to maintain a 75% productivity rate, which is an industry average.

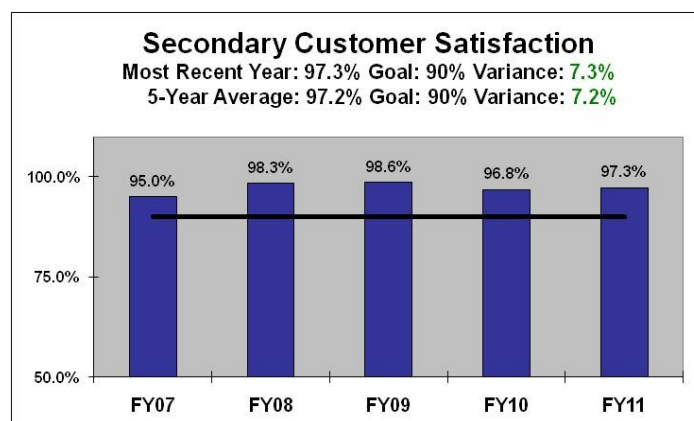
Other time, such as staff meetings, training, vacation, and holidays, is not considered productive time.



### Secondary Customer Satisfaction

With each audit deliverable, we send satisfaction surveys to the County Manager, Deputy County Manager, Assistant County Managers, and Department Directors.

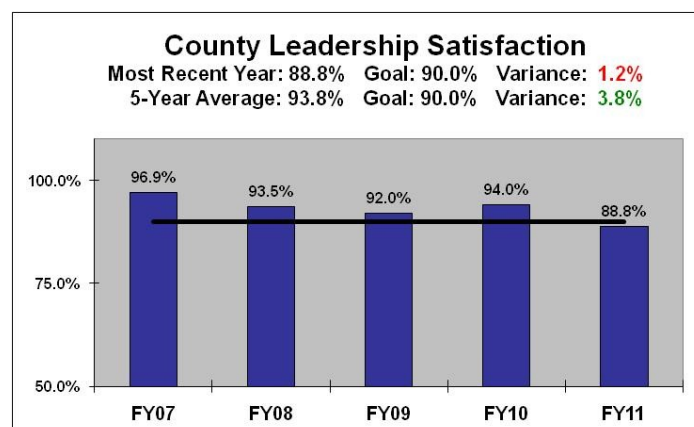
Based on scores, comments, and interaction, we are able to validate that our secondary customers believe we are doing a good job, and that we are exceeding expectations.



### County Leadership Satisfaction

Department Directors participate in an annual County satisfaction survey.

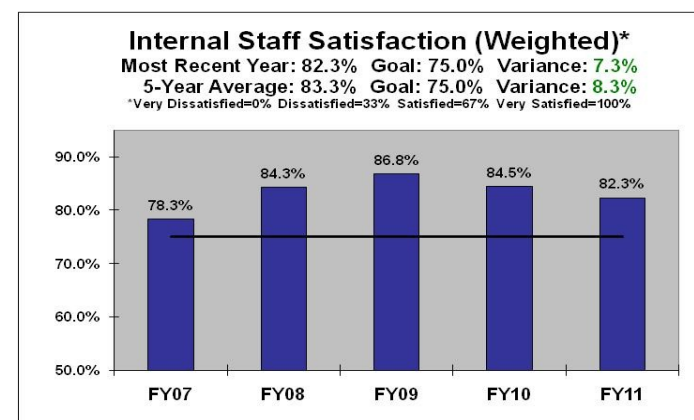
Although they are not our primary customers, we continue to monitor feedback from Department Directors, and implement improvements whenever possible.



### Internal Staff Satisfaction

Internal Audit has consistently maintained a high employee satisfaction rate based on survey results by the Office of Research and Reporting.

Internal Audit satisfaction scores have remained in the top percentage Countywide.





## Recoveries, Savings, & Cost Avoidance

### Potential Dollar Recoveries & Identified Savings

The following table lists FY11 audits with a quantifiable economic impact, including actual and identified increases in revenues, cost recoveries, and other savings. The table on the opposite page lists potential savings and cost avoidance that could be realized, although the dollar impact is more difficult to measure.

For additional information on projects that have yielded benefits over time, see Audit Impact (Appendix E, page 34).

<b>Audit</b>	<b>Impact</b>	<b>Description</b>
Library District	\$247,486	Annual savings from purchasing rather than leasing DVD inventory; overpayments and accumulated credits due to unsupported discount rates/incorrect price adjustments; construction contract overpayments; incorrect trade discount
Construction Contracts	\$65,128	Unsupported relocation expenses; overbillings; incorrect labor rates and unallowable paid time off; duplicate charges and incorrect payments
Justice Court Minimum Accounting Standards	\$38,000	Cost savings attained by not using outside consultants for this mandated review (dollars reflect the variance between internal and external costs)
Single Audit Review	\$14,700	Cost savings attained by not using outside consultants for this mandated review (dollars reflect the variance between internal and external costs)
Juvenile Probation Minimum Accounting Standards	\$11,856	Cost savings attained by not using outside consultants for this mandated review (dollars reflect the variance between internal and external costs)
Transportation	\$661	Duplicate vendor payments
County Attorney Expenditures	\$579	Duplicate vendor payments
Transportation Design Contract	\$436	Credits for costs incurred prior to contract and employee meals
<b>Total Identified Savings:</b>	<b>\$378,846</b>	

## Other Potential Savings/Cost Avoidance

Our audit work is not always measured by, and may not always result in quantifiable dollar recoveries or cost savings. Many times, audit recommendations result in unquantifiable efficiencies that improve service delivery or program quality. In other cases, audit recommendations result in a quantifiable cost avoidance, or in the mitigation of risk.

For example, our annual review of Internet usage is believed to increase employee productivity. When employees and management are aware that Internet usage is being monitored, inappropriate usage is expected to decline. This cost avoidance can be estimated by a few calculations using average hourly pay and the number of Internet users.

FY11 audits with a quantifiable cost avoidance appear below.

Audit	Impact	Description
IT Inventory	\$11,000,000	Data leakage and weak IT governance processes could result in IT plans that do not align with the County's overall strategic plan leading to uncontrolled expenditures and/or subpar systems
Continuous Monitoring: Internet Usage	\$3,099,769	The County could save an estimated \$3 million in personnel costs annually by reducing non-productive Internet use by 5 minutes a day: <i>Non-productive use is defined as personal use believed to be conducted on "company" time. Internal Audit conducts recurring, unannounced monitoring of Internet use. This type of monitoring decreases the amount of non-productive Internet usage in organizations</i>
IT Contracts & Agreements	\$300,000	Compliance reviews could result in cost avoidance for penalties and other charges at various County agencies
<b>Total Cost Avoidance:</b>	<b>\$14,399,769</b>	

## Internal Audit Issued 105 Recommendations in FY11

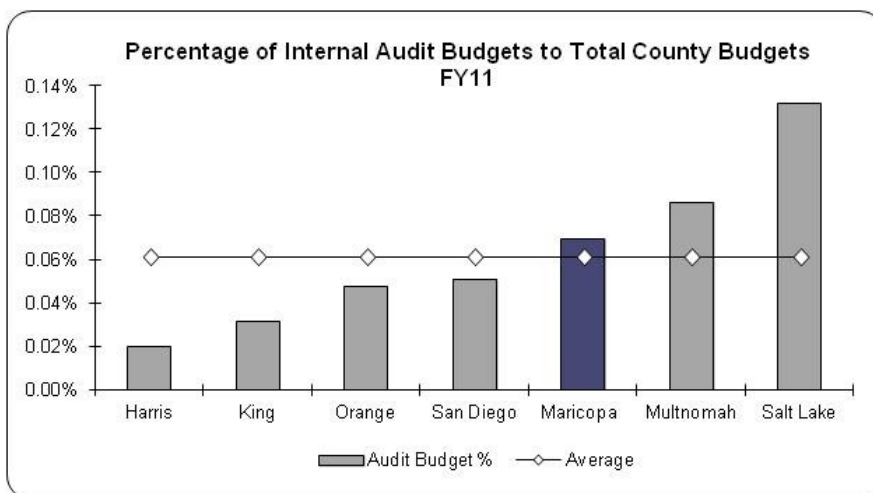
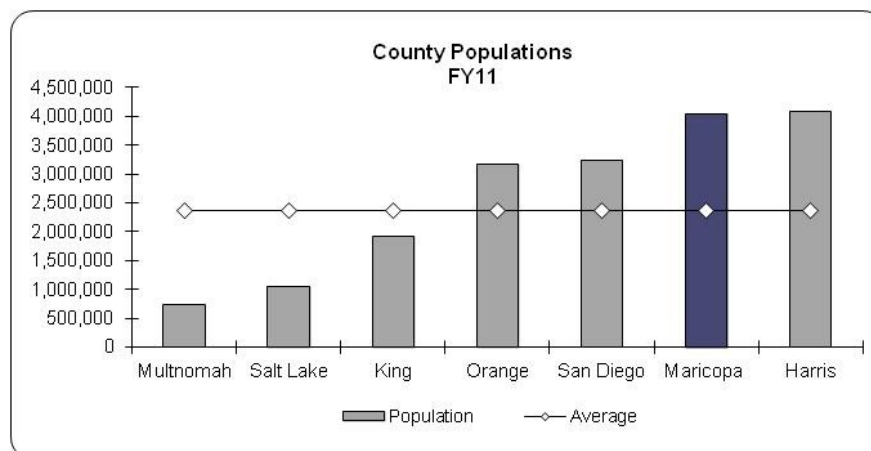
Internal Audit provides independent analysis and assurance that operations are efficient, economical, and effective. We track implementation of audit recommendations that identify efficiency gains, provide economical guidance, improve operational effectiveness, and ensure controls are in place to prevent fraud, waste, and abuse.

In FY11, we made 105 recommendations, of which 104 (99%) were agreed to by the audited agencies. To date, 34 (33%) of these recommendations were implemented.

# Budget & Benchmarks

## County Population

The chart to the right compares Maricopa County's population to six benchmark counties.



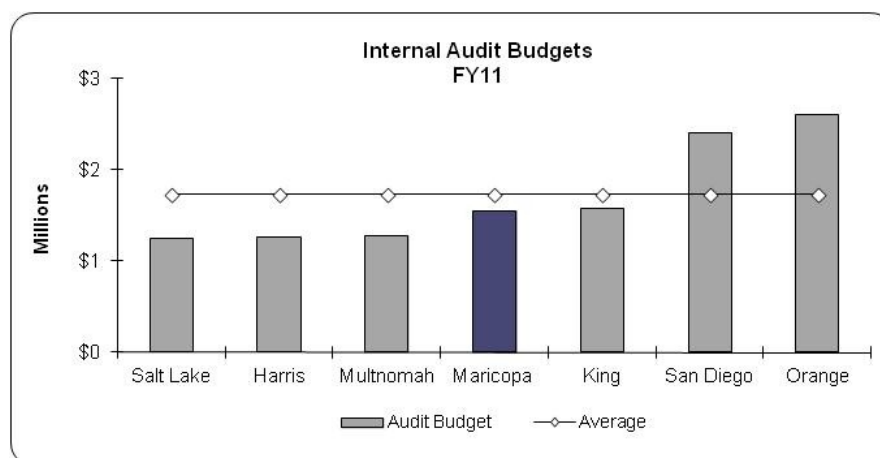
## County Budget

The chart to the left reflects what percentage the county's audit budget is when compared to the county's total budget.

## Internal Audit Budget

Maricopa County's Internal Audit costs are below average compared with other benchmark counties.

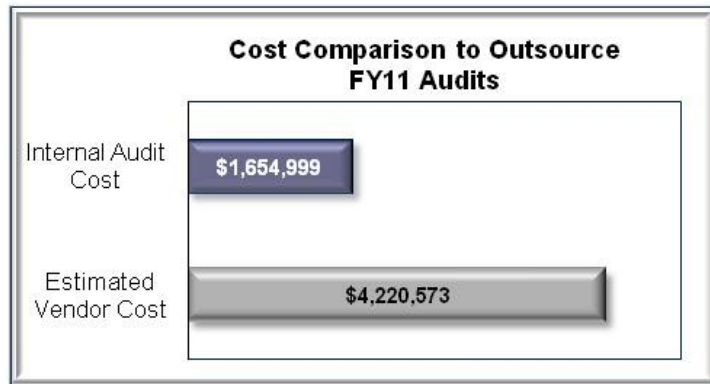
Some counties include co-sourcing dollars within their budgets; these were deducted from the graph for an accurate comparison.



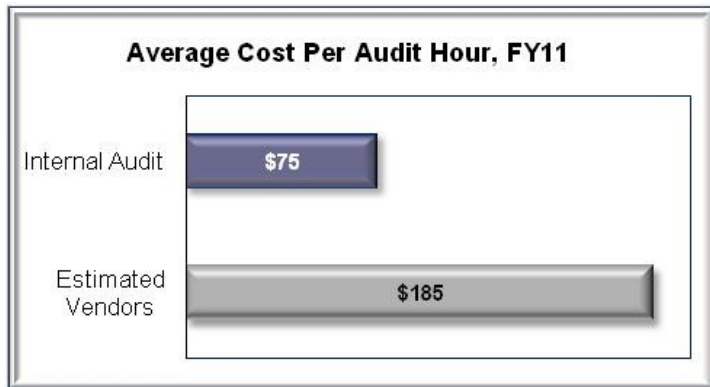
# Internal Audit—A Good Investment

## Our Cost vs. the Cost to Outsource the Audit Function

FY11 audit work would have cost the County more than twice as much if external auditors had been used instead of Internal Audit staff.



The average cost per audit hour for an external auditor was \$185 compared to \$75 for an internal auditor (includes overhead).



## Our Cost vs. Cost Savings to the County

Over the past 10 years, Internal Audit produced \$18 million in savings (and \$61 million in potential savings/cost avoidance) to the County. During the same period, our costs (including co-sourcing dollars) totaled \$16 million, resulting in a net savings of \$1.9 million to the County.



Our savings averaged \$1.8 million per year compared with average annual resources of approximately \$1.6 million.

Internal Audit identifies potential savings to the County by detecting weak controls that can lead to waste and abuse, and by deterring fraud.

A well run internal audit function is an investment that benefits County management and citizens.

**Internal Audit is a Good Investment**

# Customer Feedback

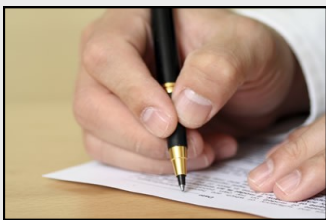
## During FY11, our customers told us ...

"I wanted to thank you for your kind words and to let you know that I found this particular audit to have been conducted in a very professional and courteous manner. The experience not only affirmed many of our current procedures but it brought to light several best practices available to improve our performance going forward. It was a pleasure working with you."

"The audit team communicated status updates regularly, and was extremely professional and sensitive to the issues and any concerns we expressed. The audit was a positive experience, overall. Thank you."

"This information helps me understand and assess my agency operations so I can make informed decisions to better serve County citizens."

"Very comprehensive report—interesting."



"I must say that this certainly confirms what a good idea it is to have regular audits, because it points out oversights in our procedures that we may then rectify. It certainly helped us out!"

"This was excellent work by everyone involved. Thanks to all."

"It was a pleasure working with the audit team, and we appreciate the sensitivity and professionalism they've shown throughout the process."

"Thank you for all your hard work. It is appreciated. We have taken all necessary steps to rectify your concerns. You are commended for all the hard work you provide."

"This is an exceptional product."

"Excellent. Thanks all."

"Good reports."

"These audits are essential in helping us with our core mission deliverables. We all strive for perfection; however, an outside set of eyes reviewing the details from a different perspective helps us firm up any loose ends that may occur over time. Thank you very much for helping us to improve."

"I'd like to thank Internal Audit for the feedback provided on this audit. Also, I would like to thank the auditors, both of whom were professional and courteous during their inspection."

"The audit team did a nice job on this report. It is precise yet informative. I appreciated the way the team worked with us throughout the process to ensure that the report was accurate and informative. I also appreciate the support the team provided when working with the GAO. It helped us anticipate the needs and effectively inform the GAO."

"Excellent report. Thank you."

"Bravo all to entire team."



## Countywide Audits

Countywide audits allow for broader coverage with fewer resources. Countywide audits focus on selected areas (e.g., contracts, network security, etc.) and/or transactions (e.g., cash handling, expenditures, travel, etc.) that cross agency boundaries. A summary of FY11 Countywide audit coverage is reflected below.

- ◆ Contracts & Agreements
- ◆ Performance Measures
- ◆ Single Audit
- ◆ Internet Usage
- ◆ Procurement Cards
- ◆ Surprise Cash Counts
- ◆ IT Inventory

## IT Audit Services

Information Technology (IT) is an integral part of County operations and Managing for Results efforts. The proliferation of IT applications, data, networks, and the web creates the need for knowledgeable and experienced IT auditors. Internal Audit provides the following services:

- ◆ IT General Controls
- ◆ System Development
- ◆ Application Controls
- ◆ IT Governance
- ◆ Network Security



## Internal Control Videos

Internal Audit developed the *Internal Control Video Program* to provide inexpensive and entertaining films to increase awareness of common ethical and internal control issues. We recently released our new internal control video, “Procurement Card Controls” in August 2011.



This video highlights controls over procurement cards and helps educate employees on how to properly use their County procurement card. Below are some comments we received.

“Thank you so much for sending your link. Your videos are excellent!” — City of Conroe, TX

“Thanks for sharing. The video is fabulous.” — Manassas, VA

“These are always GREAT! Thanks” — San Antonio, TX

“Thanks for sharing. Fun way to get message across.” — City of Gainesville, FL

“That was pretty cool. I can tell you had a great time making the video. You definitely get your point across.” — City of Kansas City, MO

Look for our videos at: [www.maricopa.gov/internal\\_audit](http://www.maricopa.gov/internal_audit) and on



## Presentations / Speaking Engagements

### AGA Conference - 18th Annual Professional Development Conference

The Phoenix Chapter of the Association of Government Accountants (AGA) invited Ross Tate, County Auditor, to present “Auditing Tools and Methods.”

### Board of Supervisors Meeting

Ross Tate, County Auditor, presented the Court Tower construction audit results at the BOS informal meeting.

### County Management Team Meeting

Ross Tate presented Internet Usage audit results at the monthly County Management meeting.



*Ross Tate with AGA Phoenix Chapter President, John Schutter*

### ALGA Conference - 2011 Annual ALGA Conference

The Association of Local Government Auditors (ALGA) invited Nic Harrison, Senior IT Auditor, to Charlotte, NC to present “Wireless Security for the Rest of Us.”



*Ross Tate*



*Nic Harrison*

## Published Articles

### Articles Featured in National Publications

#### Local Government Auditing Quarterly (Spring 2011)

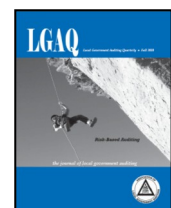
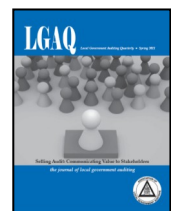
- *Nominating and Conference Planning Committees* by Ross Tate
- *Audit Shop Profile*

#### Local Government Auditing Quarterly (Winter 2010)

*From the Nominating Committee* by Ross Tate

#### Local Government Auditing Quarterly (Fall 2010)

*Leveraging Technology to Make Your Life Easier* by Ryan Bodnar



## Task Force / Volunteer

### GASB Task Force

Eve Murillo, Deputy County Auditor, was one of 17 professionals to be appointed by the Chairman of the Governmental Accounting Standards Board (GASB) to the Economic Condition Reporting—Fiscal Sustainability Task Force in FY11.



GASB is an independent, not-for-profit organization formed in 1984 to establish and improve financial accounting and reporting standards for state and local governments.

### AGA Fraud Prevention Work Group

Eve Murillo was also invited to participate with 15 others on the Association of Government Accountants' (AGA) Fraud Prevention Tool Kit Work Group in FY11. Federal, state, and local professionals from across the nation come together to work on fraud prevention.



### Audit Book Reviews

Ronda Jamieson, Senior Auditor, was invited to review and test questions written for two self-study audit books:

- 1) Squeezing Extra Cash Out of Government Operations
- 2) The Art of the Finding



Previously, in FY10, she reviewed three other self-study audit books. These books are written by a well-known author that specializes in government auditing.

### Primary Election

Christina Black, Audit Supervisor, worked as an inspector during the 8/24/10 Primary Election. The Elections Department audited the official returns received from the precincts and noted that all processes and procedures were correctly followed in her precinct.



## Appendix A: Professional Development

Internal Audit staff members have extensive knowledge of auditing methods and techniques, and specialized training in information systems and accounting.

Many hold advanced professional certifications and graduate degrees, as shown in the accompanying table.

The total number of professional certifications held by Internal Audit staff increased 10%, from 50 in FY10 to 55 in FY11.

<b>Certifications and Graduate Degrees Held by Maricopa County Internal Audit Staff</b>	<b>Number Held</b>
Certified Law Enforcement Auditor (CLEA)	13
Certified Internal Auditor (CIA)	7
IT Service Management (ITIL)	6
Certified Public Accountant (CPA)	5
Certified Government Auditing Professional (CGAP)	4
Master of Business Administration Degree (MBA)	4
Certified Fraud Examiner (CFE)	3
Certified Information Systems Auditor (CISA)	3
Certified Information Technology Professional (CITP)	2
ISO/IEC 20000 Foundation	2
Master of Public Administration Degree (MPA)	2
Certified ACL Data Analyst (ACDA)	1
Certified Government Financial Manager (CGFM)	1
Certified Management Accountant (CMA)	1
Master of Science in Information Management (MSIM)	1
<b>Total:</b>	<b>55</b>

### Congratulations on Your Achievements!

#### **Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE), and Certified Government Auditing Professional (CGAP) Certifications**



*Christina Black, CIA; Stella Fusaro, CFE, and Ronda Jamieson, CGAP*

#### **IT Service Management (ITIL)**



*Lisa Scott, Scott Jarrett, and Nic Harrison*



#### **Master of Science in Information Management (MSIM)**



*Patra Carroll*

Internal Audit staff members actively participate in a variety of audit-related professional and service organizations. Some serve as committee chairs and governing board members.

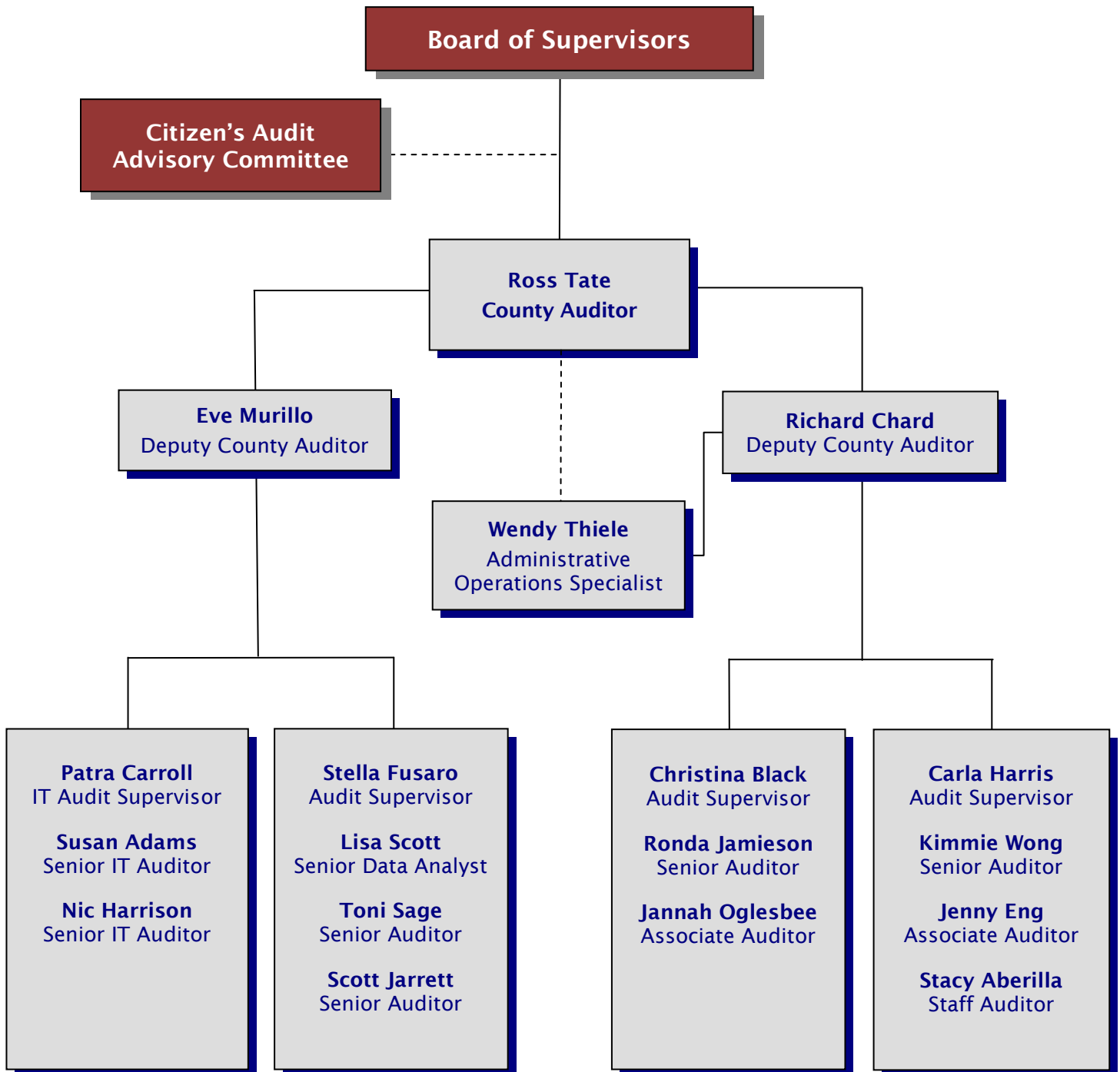
<b>Professional &amp; Service Organizations</b>
<p>American Institute of Certified Public Accountants (AICPA)  Association of Certified Fraud Examiners (ACFE—National and Arizona Chapter)  Association of Government Accountants (AGA)  Association of Local Government Auditors (ALGA)  Audit Command Language (ACL) Users Group  Governmental Accounting Standards Board (GASB) Task Force  Information Systems Audit and Control Association (ISACA)  Institute of Internal Auditors (IIA—National and Phoenix Chapter)  Institute of Management Accountants (IMA)  International Law Enforcement Auditors Association (ILEAA)  Maricopa County Blood Drive  Maricopa County Combined Charitable Campaign  Toastmasters International</p>

<b>Leadership Roles in Professional &amp; Service Organizations</b>	<b>Positions Held</b>
Audit Command Language (ACL) Users Group:	
Secretary/Treasurer	1
Association of Local Government Auditors (ALGA):	
President-Elect (and 2011 Annual Conference Chair)	1
Advocacy Committee	1
Conference Committee	1
Information Systems Audit and Control Association (ISACA):	
Co-Chair, Academic Affairs Committee	2
Academic Affairs Committee	3
Institute of Internal Auditors (IIA):	
Secretary	1
Other Organizations:	
Toastmasters—Treasurer	1
Toastmasters—Club President	1
<b>Total:</b>	<b>12</b>



## Appendix B: Organizational Chart & Staff Biographies

### FY11 Internal Audit Department Organizational Chart





### **Ross L. Tate, County Auditor**

Mr. Tate is a Certified Internal Auditor, Certified Management Accountant, and Certified Government Financial Manager. He has a bachelor's degree from Brigham Young University in business operations and systems analysis, with 23 years of professional internal auditing experience. Mr. Tate joined the Maricopa County Internal Audit Department in 1989 and has been County Auditor since 1994. He is currently serving as President of the Association of Local Government Auditors, an international audit organization.



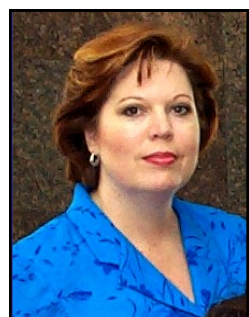
### **D. Eve Murillo, Deputy County Auditor**

Ms. Murillo is a CPA, Certified Fraud Examiner, Certified Law Enforcement Auditor, Certified Information Technology Professional, and is certified in ITIL v3 Foundation and ISO/IEC 20000. She has a bachelor's degree from the University of Illinois, a master's degree from the Florida Institute of Technology, and 20 years of accounting and auditing experience. She is a member of AICPA, Association of Certified Fraud Examiners, Institute of Internal Auditors, and is a committee chair for the Information Systems Audit and Control Association.



### **Richard L. Chard, Deputy County Auditor**

Mr. Chard is a CPA. He graduated from the University of Redlands with a degree in history, sociology, and political science, with postgraduate work in accounting and public administration. Mr. Chard worked as a financial auditor for CPA firms in Los Angeles and Phoenix before joining the Maricopa County Department of Finance in 1991. For the past 15 years, he has enjoyed working for the County Auditor. Mr. Chard is a long standing and active member of Toastmasters International.



### **Patra E. Carroll, IT Audit Supervisor**

Ms. Carroll is a CPA, Certified Internal Auditor, Certified Information Technology Professional, and Certified Law Enforcement Auditor with 17 years of public sector performance and IT auditing experience. She is ITIL v3 Foundation and ISO 20000 Foundation certified. She has a bachelor's degree from Arizona State University and a master's degree in information management. Ms. Carroll serves on the Association of Local Government Auditors Advocacy Committee and the local ISACA Academic Relations Committee.



### **Carla Harris, Audit Supervisor**

Ms. Harris is a CPA, Certified Internal Auditor, and Certified Fraud Examiner. She has a bachelor's degree in business administration, with 20 years of experience in internal auditing and accounting. She is a former board member and training director for the Arizona Chapter of the Association of Certified Fraud Examiners, and a member of the National Chapter of the Association of Certified Fraud Examiners, the Institute of Internal Auditors, and the Association of Government Accountants.



### **Christina Black, Audit Supervisor**

Ms. Black is a Certified Internal Auditor, Certified Government Auditing Professional and Certified Law Enforcement Auditor with over 15 years of professional internal audit experience and 10 years of accounting and revenue auditing experience. She has a bachelor's degree in accounting from Missouri Western State College. Ms. Black serves as a Secretary for the Institute of Internal Auditors and is a member of the Association of Certified Fraud Examiners and Association of Local Government Auditors.



### **Stella J. Fusaro, Audit Supervisor**

Ms. Fusaro is a Certified Internal Auditor, Certified Government Auditing Professional, Certified Fraud Examiner, and Certified Law Enforcement Auditor with over 20 years of auditing experience. She has a bachelor's degree in business administration with an accounting concentration from California State University, Fullerton. Ms. Fusaro is a member of the Association of Certified Fraud Examiners, the Association of Local Government Auditors, the Institute of Internal Auditors, and Toastmasters International.



### **Susan Adams, Senior Information Technology Auditor**

Ms. Adams is a CISA and a Certified Law Enforcement Auditor. She has a bachelor's degree in accounting from Utah State University and a master's of business administration from the University of Utah. She has 18 years of professional auditing experience, with 12 years as an information systems auditor. Ms. Adams serves on the ISACA Phoenix Chapter's Academic Relations committee and is a member of the Association of Local Government Auditors and the Institute of Internal Auditors.



### **Nic Harrison, Senior Information Technology Auditor**

Mr. Harrison is a CISA, certified in ITIL v3 Foundation and has a bachelor's degree in business administration from the University of Arizona, with majors in management information systems and operations management. He graduated with a master's of business administration, with an emphasis in information systems. He has four years of experience with military IT systems compliance and IT audit experience. Mr. Harrison is a member of ISACA, where he serves as a volunteer on the Academic Relations Committee.



### **Kimmie Wong, Senior Auditor**

Ms. Wong is a Certified Law Enforcement Auditor. She has a bachelor's degree in business administrative services from Arizona State University and a master's degree in public administration from Western International University. She has 12 years of business experience and 15 years of professional internal auditing experience. Ms. Wong is a member of the Association of Local Government Auditors, Association of Certified Fraud Examiners, Institute of Internal Auditors, and International Law Enforcement Auditors Association.





### **Lisa Scott, Senior Data Analyst**

Ms. Scott is a CISA, Certified ACL Data Analyst, Certified Law Enforcement Auditor, and is certified in ITIL v3 Foundation. She has a bachelor's degree in computer science from Jacksonville State University and a post-baccalaureate certificate in accountancy from Arizona State University. Ms. Scott is a member of the Association of Local Government Auditors, Institute of Internal Auditors, Association of Certified Fraud Examiners, Information Systems Audit and Control Association, and International Law Enforcement Auditors' Association.



### **Toni Sage, Senior Auditor**

Ms. Sage has a bachelor's degree in psychology from Brooklyn College, City University of New York, an MBA from Fairleigh Dickinson University, and postgraduate work in public administration at Arizona State University. She has 13 years of experience as an information technology manager in the private sector and served as Operations Officer for a non-profit education foundation prior to rejoining Maricopa County Internal Audit in 2010. She is a Certified Law Enforcement Auditor and a member of ALGA, IIA, ILEA, and ISACA.



### **Scott Jarrett, Senior Auditor**

Mr. Jarrett is a Certified Internal Auditor, Certified Government Auditing Professional, Certified Law Enforcement Auditor, and is certified in ITIL v3 Foundation. He has a bachelor's degree in accounting from Arizona State University. He served four years in the United States Coast Guard and has five years professional internal auditing experience. Mr. Jarrett is a member of the Institute of Internal Auditors and participates on the Academic Relations Committee for the Information Systems Audit Control Association.



### **Ronda Jamieson, Senior Auditor**

Ms. Jamieson is a CPA, Certified Government Auditing Professional, and Certified Law Enforcement Auditor. She has a bachelor's degree in accounting from Rocky Mountain College, Montana. She has ten years of governmental auditing and eight years of general ledger experience. Ms. Jamieson is a member of IIA, Arizona Society of Certified Public Accountants, Association of Certified Fraud Examiners, and the International Law Enforcement Auditors Association. She is also active in Toastmasters International.



### **Jenny M. Eng, Associate Auditor**

Ms. Eng started as an Internal Audit intern in May of 2007 and became an auditor in October 2007. She has a bachelor's degree in accountancy and computer information systems from the W.P Carey School of Business at Arizona State University. Ms. Eng is a member of the Institute of Internal Auditors and the Arizona Chapter of the Association of Certified Fraud Examiners. She is currently working towards the Certified Internal Auditor and Certified Government Auditing Professional certifications.



### **Jannah Oglesbee, Associate Auditor**

Ms. Oglesbee is a Certified Internal Auditor, Certified Law Enforcement Auditor, and has a bachelor of business administration degree in marketing. She has over six years experience in examining and auditing financial institutions and governments. She has served in the United States Army for over nine years, and is currently in the Army National Guard. Ms. Oglesbee is a member of the Institute of Internal Auditors and the Arizona Chapter of the Association of Certified Fraud Examiners.



### **Stacy Aberilla, Staff Auditor**

Stacy Aberilla joined Internal Audit in October 2010. She has a master of public administration degree from Arizona State University School of Public Affairs where she was a member of Pi Alpha Alpha national honor society. She graduated from ASU magna cum laude with a bachelor's degree in sociology and minor in women's studies. She formerly worked as an auditor in the credit services industry. She is a member of the Association of Government Accountants, the Association of Local Government Auditors, and the Institute of Internal Auditors.



### **Wendy Thiele, Administrative Operations Specialist**

Ms. Thiele joined Internal Audit in December 2006. Prior to relocating to Phoenix, she performed medical chart audits for a major healthcare system in Milwaukee, WI. She has 14 years experience in internal auditing. She also has experience in human resources and home health care within a hospital setting. Ms. Thiele is a member of the Arizona Chapter of the Association of Certified Fraud Examiners and has attended numerous auditing conferences and seminars, which have contributed to her overall knowledge of the audit process.



## Appendix C: Audit Summaries

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## American Recovery and Reinvestment Act (ARRA) ~ July 2011



The Federal Government awarded Maricopa County \$62.6 million in ARRA funds, which were allocated to 13 County agencies. As of May 31, 2011, these agencies collectively received \$47.7 million and spent \$49.3 million for County programs and payments to non-County service providers (subrecipients). The County receives the revenues after program expenditures have been submitted for reimbursement.

### Report Highlight

Based upon our review of the County's ARRA activities, Maricopa County appears to have implemented adequate procedures to comply with Federal accountability and transparency requirements.

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## Citizens Financial Condition Report ~ January 2011



The Citizens Financial Condition Report is based on the County's FY10 Comprehensive Annual Financial Report and summarizes the County's key financial information and trends. The report uses graphics for a highly visual, interesting, and understandable report for the benefit of elected officials, management, and the public. The report presents significant financial trends and national benchmark analyses. The Government Finance Officers Association recognized this report for Outstanding Achievement in Popular Annual Financial Reporting.

### Report Highlights

- ◆ FY10 total revenues fell below FY06 levels
- ◆ Conservative fiscal policies have guided spending and ensured expenditures did not exceed revenues
- ◆ The General Fund unreserved fund balance remained healthy
- ◆ Key County financial indicators compared very favorably to national benchmarks
- ◆ County net assets, an indicator of longer term financial health, continued to increase
- ◆ Funding for the County's primary employee retirement plan decreased slightly

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## County Attorney ~ FY11



The Maricopa County Attorney is an elected official whose office is responsible for prosecuting all felonies that occur within Maricopa County and all misdemeanors that occur in unincorporated areas of the County. One of the audits below is a carryover from the FY09 audit plan.

### Audits

- ◆ Data Center Review—July 2011 (FY09 Carryover Audit)
- ◆ Expenditures Review—July 2011
- ◆ Transition Audit—October 2011

## **Contracts & Agreements**

### **Arizona Legal Workers Act ~ June 2011**



In May 2008, A.R.S. § 41-4401 was signed into law. Among other things, the statute requires government entities to conduct random verifications to ensure that contractors/subcontractors are complying with the Arizona Legal Workers Act (Act). The Act prohibits businesses from knowingly hiring unauthorized aliens. It also requires employers to use the E-Verify system (a free web-based service offered by the Federal Department of Homeland Security) to verify the employment eligibility of all employees hired after December 31, 2007. Under the Act, the County may bring suit against employers for knowingly hiring unauthorized aliens. An employer found liable, faces possible suspension or revocation of its business license.

#### **Significant Issue**

One contractor was randomly selected for review; no unauthorized employees were identified.

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### **Downtown Court Tower Construction ~ October 2010**



The Board of Supervisors approved the construction of the Maricopa County Downtown Court Tower through a series of Guaranteed Maximum Price contracts with Gilbane Building Company (Gilbane). The overall budget for the project is \$340 million, of which \$213 million through March 31, 2010 was committed to contracts with Gilbane.

Under the direction of Internal Audit, the consulting firm Moss Adams LLP reviewed expenditures charged under five construction contracts, in various stages of completion, for the Downtown Court Tower project.

#### **Significant Issues**

Based on the work performed, the auditors reported the following observations:

- ◆ Some good construction practices were noted
- ◆ \$60,064 in questionable costs were found
- ◆ Controls over policies and procedures, close-out costs, and contract provisions could be improved

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### **Library Materials and Services ~ March 2011**



In April 2006, the Maricopa County Library District (MCLD) established a five-year contract for Library Materials and Related Services with two vendors, Brodart Co. and Baker & Taylor Inc. MCLD uses the Library Materials and Services Contract to obtain a majority of its books, audio, video, and other materials and services. During FY10, MCLD purchased or leased over 136,000 items (books, CDs, DVDs, and other) costing nearly \$2.6 million.

#### **Significant Issues**

- ◆ Procurement documents were complete
- ◆ \$81,000 in vendor overpayments and accumulated credits were found
- ◆ \$96,000 could be saved annually by purchasing rather than leasing DVDs

## **Contracts & Agreements (Continued)**

### **Transportation Design (Northern Parkway Program) ~ March 2011**



Under the direction of Internal Audit, the consulting firm Jefferson Wells reviewed the On-Call Management Consultant Services, Contract #2009-001, for the Northern Parkway Program. Maricopa County Department of Transportation (MCDOT) is managing this program for the County and the cities of Glendale, Peoria, and El Mirage. MCDOT selected PTG as the program management consultant and awarded work assignments on an on-call basis.

#### **Significant Issues**

- ◆ Intergovernmental agreements were not amended to reflect the City of El Mirage's withdrawal from the program
- ◆ Controls over procurement, change orders, contractor prequalification evaluations, and project accounting could be improved
- ◆ \$436 in unallowable costs were billed

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### **White Tanks Library Construction ~ March 2011**



In June 2007, the Maricopa County Library District (MCLD) secured Board of Supervisors support for a partnership between MCLD and the Maricopa County Parks and Recreation Department (PRD) for a library and nature center at the White Tank Park.

At the time, the Board expressed concerns regarding the remote location and possible future annexation of the land surrounding the park by cities or towns. In September 2008, MCLD proposed an alternate location. The Board approved the construction of a 30,000 square foot branch library and the purchase of land in Waddell. MCLD then began the construction contract procurement process and in December 2008, an \$8 million construction contract was awarded to Mortenson Construction for a 29,000 square foot facility. Around the same time, site design work began at the White Tank Park. In June 2009, the Board approved an IGA between MCLD and Maricopa County whereby PRD provided land in the park in exchange for MCLD to pay for building construction expenses, including the park's nature center.

#### **Significant Issues**

- ◆ Procurement and contract pricing requirements were mostly followed
- ◆ \$30,000 was overbilled by the vendor
- ◆ Controls over vendor evaluations, contract solicitation, and use of restricted funds can be improved

## **Flood Control District ~ June 2011**



The Flood Control District is responsible for providing floodplain management within all unincorporated areas of Maricopa County, as well as incorporated areas, unless the jurisdiction assumes the responsibility.

Floods are the most common natural disaster in the world. In the United States, 92 people die each year as a result of flooding, and over the past 10 years national average annual flood losses were more than \$2.7 billion. Despite its desert climate, Maricopa County has the potential for major flooding. There have been 94 flood events in the County since 1950, which have caused \$19 billion in property damages and seven deaths.

### **Significant Issues**

- ◆ Controls over Cash Handling, Emergency Action Plans, and ALERT system maintenance need improvement
- ◆ Cost allocation methodologies appear to be reasonable



## **Human Services ~ July 2011**



In FY10, Human Services received \$53.5 million in federal and state grants, including \$9.4 million in American Recovery and Reinvestment Act (ARRA) economic stimulus grants. Due to the high grant revenues, our review was focused largely on grant reimbursements and related contracts and agreements.

### **Significant Issues**

- ◆ Requests for reimbursement of eligible grant expenditures were generally timely; however, opportunity for improvement was noted
- ◆ Board of Supervisors approval of grant awards was not always obtained prior to funds being received or expended
- ◆ Contractor eligibility was not always determined prior to entering into agreements with recipients of grant funds



## **IT Inventory: Risk Identification ~ February 2011**



Technology now affects most areas of government. While technology can facilitate quicker, more accurate and reliable service, it also introduces new risks. Understanding the County's Information Technology (IT) risks helps County leadership in determining where to allocate limited resources. Data privacy, IT Governance, and legacy (older, aging) enterprise applications appear to be the County's top three IT risks.

### **Significant Issues**

- ◆ Inadequate data privacy controls could result in lost or stolen data
- ◆ Weak IT governance processes could result in IT plans that do not align with the County's overall strategic plan leading to uncontrolled expenditures and/or subpar systems
- ◆ Aging IT systems relied upon by users for key business processes may not perform efficiently



## Internet Usage Review ~ January 2011



The County may be at risk for inappropriate or excessive employee Internet usage. National surveys show that, on average, employees access the Internet one-to-two hours a day for personal use (e.g., games, instant messaging, shopping, and banking). Salary.com states that, “While wasted time (using the Internet) has steadily declined, companies are still paying billions in salaries for which no direct benefit is received.” Experts say networks can be exposed to malicious attacks when employees inadvertently access rogue links through personal e-mail accounts.

### Significant Issues

- ◆ Management monitoring can determine if Internet abuse is occurring
- ◆ The County risks losing \$3.1 million in productivity each year, if employees spend 5 minutes of work time on personal Internet use daily
- ◆ The County’s Internet filtering software, used to restrict access to inappropriate sites, is not completely effective

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## Justice Courts MAS ~ January 2011



The Maricopa County Justice Court system has 25 courts at 12 locations. The Justice Courts handle criminal traffic, misdemeanor, and a variety of civil cases when the amount involved is \$10,000 or less.

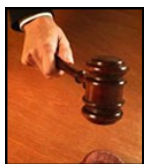
The Minimum Accounting Standards (MAS) review is an Agreed-Upon Procedures engagement. The Administrative Office of the Arizona Supreme Court sets forth standard audit procedures to be conducted by an independent accountant every three years. The purpose of the engagement is to ensure that Maricopa County courts maintain effective internal control procedures over financial accounting and reporting systems.

### Significant Issues

Most exceptions were related to segregation of duties, cash handling, disbursements, and reconciliations of financial records.

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## Juvenile Probation MAS ~ October 2010



Internal Audit completed a Minimum Accounting Standards (MAS) review of the Juvenile Probation Department. The MAS review is an Agreed-Upon Procedures engagement. The Administrative Office of the Arizona Supreme Court sets forth standard audit procedures to be conducted by an independent accountant every three years. This review was limited to the Juvenile Probation diversion restitution checking account.

### Significant Issues

Most exceptions were related to cash handling and reconciliation of financial records.

## Library District ~ March 2011



The Board of Supervisors established the Maricopa County Library District in 1987 pursuant to Arizona Revised Statutes § 11-901 and 48-3901. The statutes allow the County to create a special taxing district and levy secondary property taxes sufficient to fund a library district.

Citizens in unincorporated areas and smaller cities and towns depend on the Library District's 3 regional and 14 branch offices for their library services. Our primary objective was to review controls over Library District operations (\$22 million) and the construction of the White Tank Library and Nature Center (\$8.6 million). The audit focused on the Library District's management of its key contracts, critical information technology, asset (book) disposal, and cash handling.

### Significant Issues

- ◆ Formal policies, procedures, and processes do not exist for some key IT functions
- ◆ Formal agreements with the Friends of the Library groups do not exist
- ◆ No material cash shortages were found
- ◆ Bank reconciliations were complete
- ◆ Cash control policies were not always followed
- ◆ 71% of the fee waivers reviewed did not have management approval as required

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## Non-Departmental ~ July 2011



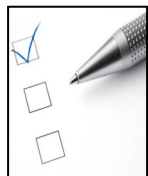
The Non-Departmental (ND) agency accounts for \$1.2 billion (53%) of the County's FY11 budget. The County uses ND to track expenditures that benefit the whole County or multiple County agencies. The Office of Management and Budget oversees the ND budget and authorizes expenditures.

### Significant Issues

- ◆ Oversight of expenditure transfers could be strengthened
- ◆ Payment authorization controls appear sufficient

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## Performance Measure Certification ~ June 2011



The Board adopted a performance measurement initiative called Managing for Results in FY01. Each year, we review agency-reported performance measures to ensure reported results are accurate and reliable. This year, we examined 40 performance measures from 7 County agencies.

### Significant Issues

- ◆ 15 of the 40 measures reviewed were certified (38%)
- ◆ Measures were not certified because of the lack of supporting documentation and inadequate procedures for collecting, measuring, and reporting performance
- ◆ The percent of certified measures declined in FY11

## Purchasing Cards (P-Cards) ~ April 2011



Internal Audit monitors P-Card activity annually to deter abuse and increase management awareness. Materials Management made \$1.5 million in P-Card purchases between October 2009 and December 2010. We reviewed 24 transactions totaling \$82,424 from this period.

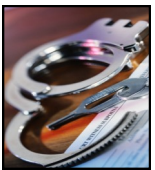
### Significant Issues

For the 24 P-Card transactions reviewed, 21 transactions had the following various exceptions:

- ◆ Lack of pre-approvals for purchases
- ◆ Reconciliations not completed within 14 days
- ◆ Transaction logs not reviewed by supervisor within 14 days
- ◆ Insufficient or incomplete supporting documentation
- ◆ Logs that reflected inaccurate dates
- ◆ A transaction split to avoid the single transaction limit

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## Sheriff's Office ~ FY11



The Maricopa County Sheriff's Office is the agency established to execute statutory duties and to provide public safety services to County citizens. Two of the audits below are carryovers from the FY10 audit plan.

### Audits

- ◆ IT Inventory—July 2011 (See Countywide IT Inventory section)
- ◆ P-Card Review—June 2011 (FY10 Carryover Audit) - Note: We reviewed a small sample of transactions to accomplish FY10 Countywide Procurement Card review objectives
- ◆ Software Licensing—July 2011 (FY10 Carryover Audit)

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## Single Audit—Grant Compliance Review ~ February 2011



In 1984, the United States Congress passed the Single Audit Act. The Federal Office of Management and Budget implemented the Single Audit Act. Currently, non-federal entities that expend \$500,000 or more in federal assistance during a fiscal year are required to undergo a comprehensive financial and compliance audit each year (Single Audit) by an independent auditor.

In our annual compliance reviews for federal grant funds distributed through Maricopa County to various subrecipients, we examined the audited financial and grant compliance reports of 34 federal grant subrecipients (\$17.6 million) to determine compliance with the Single Audit Act.

### Significant Issues

24 of 34 reports contained 100 findings, with 24 material weaknesses related to federal grant compliance or internal controls. However, the findings reported by the independent auditors do not appear to impact funds passed through by the County.

## Surprise Cash Counts ~ September 2010



Due to the inherent risk of cash and cash transactions, we regularly review cash funds to verify that County officials have established and maintained adequate controls over cash to guard against theft and misuse. We conducted surprise cash counts of 23 funds at 7 agencies to ensure adequate controls were in place.

### Significant Issues

We did not identify any material shortages during our cash counts. However, we observed several cash control weaknesses and policy exceptions, such as:

- ◆ Cash not properly secured
- ◆ Custodian change not reported to the Department of Finance

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## Transportation ~ June 2011



The Maricopa County Department of Transportation (MCDOT) is responsible for providing transportation infrastructure and related services to people within the County so they can live, work, conduct business, and travel in a safe and clean environment. Numerous federal, state, and local regulations govern road, traffic, and general transportation issues.

### Significant Issues

No material weaknesses came to our attention during testing of construction procurement and restricted funds expenditures. However, MCDOT could improve the effectiveness and efficiency of construction project management by strengthening controls in the following areas:

- ◆ Project Schedules
- ◆ Change Order Management
- ◆ Contractor Payment Processes
- ◆ Construction Project Accounting
- ◆ IT Control Environment

## Appendix D: Other Projects

### **Detention Fund**

Based on the recommendation of the Board of Supervisors, the Office of Management and Budget (OMB) initiated a task force consisting of members from the Department of Finance, Internal Audit, and OMB to provide assistance in determining the amount of potential misspending that occurred between the County's General and Detention Funds during January 2004 to June 2010. The objective was limited to calculating the amount of MCSO payroll misspending. Other funds (Inmate Services and Grant) were also included in the analysis.

### **Audit Follow-Up**

The goal of the Internal Audit process is to increase the overall effectiveness of County operations and procedures. Audit recommendations for improvement become meaningful only when needed changes are recognized and implemented by clients. Following up on audit recommendations is an integral part of the audit process.

On a regular basis, Internal Audit sends a Status Report Request to clients with open audit recommendations. This process may also include site visits, interviews, phone calls, or a review of additional documentation. When all recommendations for an audit have been implemented, a closing memo is sent to the client.

### **Risk Assessment / Audit Planning**

Effective internal auditing is based on systematically reviewing an organization's operations at intervals commensurate with associated risks. The annual risk-assessment process produces an audit plan that maximizes audit coverage and minimizes risk. Auditing every County activity on a regular basis would not be cost effective; therefore, Internal Audit uses an annual risk assessment, along with professional judgment, to ensure resources are focused on high-risk areas.



## Appendix E: Audit Impact

Some audits have an immediate impact while others yield organizational benefits over time. Some recommendations have a measurable financial impact (e.g., increased revenues, cost recoveries, etc.) while others add value over time (e.g., operational efficiencies, improved controls, decreased risk of fraud, waste, and abuse, etc.). The audits below illustrate this.

### **FY11 - National Impact**

In FY11, we found how far reaching our audits can be; a federal bulletin quoted issues from our FY07 Treasurer's audit report.

### **FY07 to FY11 - Contracts**

Each year our audit plan includes contract audits. Over five years, we identified \$1,827,124 in potential recoveries and identified savings, an average of \$365,425 per year.

### **FY10 - Countywide Vehicle Usage**

We identified 21 separate County policies and found that (a) many are outdated and are not effectively communicated, and (b) some agencies tasked with enforcing the policies do not have sufficient authority to do so. Greater oversight is needed to ensure the fleet is properly sized and effectively utilized. We estimate that approximately \$292,000 could be saved by expanding the fleet, given excessive employee mileage reimbursements at ten agencies. In addition, the County could save nearly \$2,500 in fuel costs by using County fuel stations more effectively. The County Manager has established a task force to address our findings and implement our recommendations.

### **FY09 - Licenses, Fees, and Permits**

We found that agency user fee reviews are not timely or effective, Countywide user fee studies are infrequent, and the gap between fee revenues and expenditures has increased significantly in the past 10 years. At the direction of the County Manager, the Department of Finance assembled a team to address our findings, and an outside consultant was hired to assist in implementing our recommendations. We estimate that fee revenues could increase by more than \$1 million annually.

### **FY09 - Employee Health Initiatives**

We found that benefit costs could be reduced by verifying dependent eligibility at open enrollment and during new employee hiring. Research shows the County could save between \$1.6 and \$3.3 million in the first year of verifying dependent eligibility. We observed that recommendations were implemented and that new and existing employees with dependent additions are now required to submit documentation.

### **FY08 - Justice Court Administration**

We found that collection activities were not clearly defined and monitoring activities were not well documented. We shared our observations with court administrators. Subsequently, in April 2010, the Justice Courts began sending out notices to collect unpaid tickets as far back as the early 1980s. The Justice Courts are in the process of recovering almost \$100 million in unpaid fees and sanctions by sending out an average of 15,000 letters to those with unpaid fines.

## Appendix F: Citizen's Audit Advisory Committee Charter

The committee's primary function is to assist the board of supervisors in fulfilling its oversight responsibilities. The committee accomplishes this function by reviewing the County's financial information, the established systems of internal controls, and the audit process.

*In meeting its responsibilities, the committee shall perform the duties outlined below.*

1. Provide an open avenue of communication between the county auditor, the auditor general, and the board of supervisors.
2. Review the committee's charter annually and seek board approval on any recommended changes.
3. Inquire of management, the county auditor, and the auditor general about significant risks or exposures and assess the steps management has taken to minimize such risks to the county.
4. Consider and review the audit scope and plan of the county auditor, and receive regular updates on the auditor general's county audit activities.
5. Review with the county auditor and the auditor general the coordination of audit efforts to assure completeness of coverage, reduction of redundant efforts, and the effective use of all audit resources including external auditors and consulting activities.
6. Consider and review with the county auditor and the auditor general:
  - a. The adequacy of the county's internal controls including computerized information system controls and security.
  - b. Any related significant findings and recommendations of the auditor general and the county auditor together with management's responses thereto.
7. At the completion of the auditor general's annual examination, the committee shall review the following:
  - a. The county's annual financial statements and related footnotes.
  - b. The auditor general's audit of the financial statements and report thereon.
  - c. Any serious difficulties or other matters related to the conduct of the audit that need to be communicated to the committee.

8. Consider and review with management and the county auditor:
  - a. Significant audit findings during the year and management's responses thereto.
  - b. Any difficulties encountered during their audits, including any restrictions on the scope of their work or access to required information.
  - c. Any changes required in the planned scope of their audit plan.
  - d. The internal audit department's budget and staffing.
  - e. The internal audit department's charter.
  - f. The internal audit department's overall performance and its compliance with accepted standards for the professional practice of internal auditing.
9. Report committee actions to the board of supervisors with such recommendations as the committee may deem appropriate.
10. Prepare a letter for inclusion in the annual report that describes the committee's composition and responsibilities, and how they were discharged.
11. The committee shall meet at least four times per year or more frequently as circumstances require. The committee may ask members of management or others to attend the meetings and provide pertinent information as necessary. Committee meetings are subject to the Open Meeting Law (A.R.S. § 38-431).
12. The committee shall perform such other functions as assigned by the board of supervisors.

### **Committee Composition and Terms**

The membership of the committee shall consist of five voting members and three non-voting members. The voting members shall be board of supervisor appointees from the public and shall serve two-year terms. The non-voting members shall be the county's chief financial officer, the county attorney, the auditor general, or their designees. The chairman of the board of supervisors shall appoint a committee chairman from the voting members. The committee chairman shall serve a one-year term.

### **Member Qualifications**

Committee members must have an understanding of financial reporting, accounting, or auditing. This understanding can be demonstrated through educational degrees (BS, MBA, PhD) and professional certifications (CPA, CMA, CIA), or through experience in managing an organization of more than 25 employees or \$20M in revenues. Committee members should be familiar with local government operations and should have sufficient time to effectively perform the duties listed herein.

Adopted by the Board of Supervisors—3/26/97

Last Amended—6/26/02

## Appendix G: Internal Audit Charter

### **Purpose**

The Maricopa County Board of Supervisors (Board) hereby establishes the Maricopa County Internal Audit Department. The mission of the Internal Audit Department is to provide objective, accurate, and meaningful information about County operations so the Board and management can make informed decisions to better serve County citizens.

### **Responsibility**

County management has primary responsibility for establishing and maintaining an effective system of internal controls. Internal Audit evaluates the adequacy of the internal control environment, the operating environment, related accounting, financial, and operational policies, and reports the results accordingly.

### **Authority and Access**

Internal Audit is established by the powers granted to the Board in A.R.S. § 11-251. The Board is authorized to supervise the official conduct of all County officers, to see that such officers faithfully perform their duties, and present their books and accounts for inspection (A.R.S. § 11-251.1). The Board is also authorized to perform all other acts and things necessary to fully discharge its duties (A.R.S. § 11-251.30). Internal Audit will report directly to the Board, with an advisory reporting relationship to the Board-Appointed Citizen's Audit Advisory Committee. In addition, the County Auditor will meet, as needed, with an oversight committee comprised of the County Administrative Officer and two Board members appointed by the Board Chairman. While conducting approved audit work, Internal Audit will have complete access (except where restricted by legal privilege) to all County property, records, information, and personnel.

### **Premise and Objectives**

Internal Audit's basic premise is that County resources are to be applied efficiently, economically, and effectively to achieve the purposes for which the resources were furnished. This premise is incorporated in the following four objectives:

#### A. Compliance with Laws and Regulations

Those entrusted with County resources are responsible for establishing and maintaining effective controls to ensure identification of and compliance with applicable laws and regulations.

#### B. Effective Program Operations

Those entrusted with County resources are responsible for establishing and maintaining effective controls to ensure that programs meet their goals and objectives.

### C. Validity and Reliability of Data

Those entrusted with County resources are responsible for establishing and maintaining effective controls to ensure that valid and reliable data are obtained, maintained, and fairly disclosed.

### D. Safeguarding of Resources

Those entrusted with County resources are responsible for establishing and maintaining effective controls to ensure that resources are safeguarded against waste, loss, and misuse.

## **Independence**

The Internal Audit Department will remain outside the control of management. Internal Audit employees will have no direct responsibility for, or authority over, any of the activities, functions, or tasks reviewed by the department. Accordingly, Internal Audit staff should not develop or write policies and procedures that they may later be called upon to evaluate. They may review draft materials developed by management for propriety and completeness. However, ownership of and responsibility for these materials will remain with management.

## **Audit Standards and Ethics**

Internal Audit will adhere to applicable industry standards and codes of ethics issued by authoritative sources (such as those issued by the Institute of Internal Auditors and the U.S. General Accounting Office). Each member of the department is expected to consistently demonstrate high standards of conduct and ethics as well as appropriate judgment and discretion.

## **Audit Planning**

The County Auditor will prepare an annual audit plan that will be reviewed by the Citizen's Audit Advisory Committee and approved by the Board. Additions, deletions, or deferrals to the annual audit plan will also be approved by the Board.

## **Follow-Up**

Internal Audit will follow up on the status of its report recommendations on a regular basis.

*Adopted by the Board of Supervisors—6/11/97*

*Last Amended—12/18/02*



## Appendix H: Internal Audit Profile



### Definition

Internal auditing is an independent, objective assurance and consulting activity that adds value and improves operations. Internal auditing helps an organization reach objectives by bringing a systematic, disciplined approach to improve the effectiveness of risk management, control, and governance processes.

### Our Value Statement (Motto)

Do the Right Things Right!

### Our Mission

The mission of the Internal Audit Department is to provide objective information on the County's system of internal controls to the Board of Supervisors so they can make informed decisions and protect the interests of County citizens.

### Our Vision

To promote the effective, efficient, economical, and ethical use of public resources.

### Our History

The Board of Supervisors appointed the first County Auditor in 1978 and established an internal audit function. In 1994, the Board of Supervisors created a Citizen's Audit Advisory Committee comprised of private citizens and County officials. (See Appendix F, page 35, for charter.) In 1997, the Board of Supervisors formalized the County's internal audit function by adopting a department charter, which was amended in December 2002. (See Appendix G, page 37, for charter.)

### Citizen's Audit Advisory Committee (Audit Committee)

The Board Appointed Citizen's Audit Advisory Committee supports further strengthening of the County's Internal Audit Department. This committee, comprised of accounting and business professionals, actively engages in analyzing risk throughout the County and making recommendations. This committee is an important link between the Board of Supervisors and the County's auditors, both internal and external. The Maricopa County Citizen's Audit Advisory Committee meets regularly to review and comment on audit reports, County financial statements, and other audit information (audit plan, special requests, etc.).

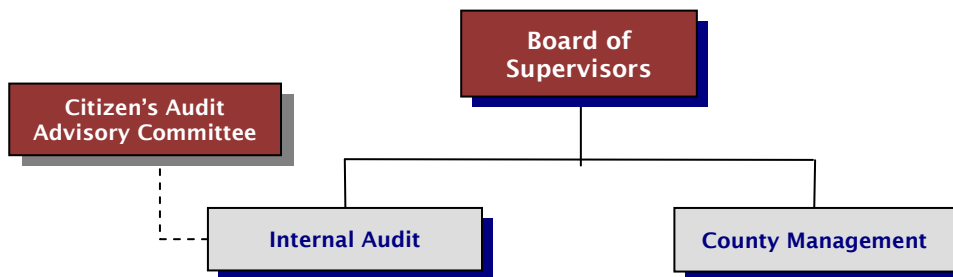
### Organizational Independence

Auditors should be removed from organizational and political pressures to ensure objectivity. As our charter designates, the Maricopa County Internal Audit Department reports directly to an elected Board of Supervisors, thereby establishing an effective level of independence from management. This structure provides the Board of Supervisors with a direct line of

communication to Internal Audit and provides assurance that County officials cannot influence the nature or scope of audit work performed.

Government Auditing Standards support locating internal audit departments outside the management function in order to encourage independence. Routine meetings with an independent audit committee further enhance independence.

## Reporting Structure of the Internal Audit Department



### Resources

A fully staffed, professional Internal Audit Department provides value-added services to the County. Each year, Internal Audit analyzes and adapts its resources to meet upcoming County auditing and consulting needs. To provide flexibility and diversified strength, the audit staff has broad-range education and experience in various audit areas: accounting, finance, performance evaluation, information systems, and management services. Each audit is performed by a team that collectively possesses the necessary knowledge and skills to fit the assignment.

Government operations are inherently complex; certain functions cannot be properly reviewed without specialized expertise. Hiring a wide variety of staff specialists, however, would not be cost effective. While Internal Audit has invested in qualified internal staff, it has also reserved resources for specialized contractors; \$160,000 was budgeted for this purpose in FY11. This partnership (called “co-sourcing”) provides the County with the collective expertise required by Government Auditing Standards at an affordable price.

### Professional Internal Audit Staff

Internal Audit staff members have extensive knowledge of auditing methods and techniques plus specialized training in information technology and accounting. (See Appendix B, page 19, for biographies.) Each auditor is responsible for maintaining Government Auditing Standards requirements of 80 continuing education hours every two years; 24 of those hours must be directly related to government operations.

## Appendix I: Audit Committee Biographies

### **Ralph Lamoreaux, Chairperson, District I**

Ralph Lamoreaux, CPA, has a master of business administration degree from the University of Utah and a bachelor's degree in accounting from Southern Utah University. He worked for the U.S. Government Accountability Office (GAO) for 33 years. Mr. Lamoreaux was involved in audits of many federal departments and agencies. He retired from GAO in July 2000.

### **Janet L. Secor, District II**

Janet L. Secor, CIA, has 20 years of internal auditing experience: nine years in Washington, D.C. at the GAO and ten years as the City of Scottsdale's Assistant City Auditor. She consulted for the Maricopa County Internal Audit for over two years. She is past president of the Arizona Local Government Auditors Association, and served as the Government Relations Chairman of the local chapter of the Institute of Internal Auditors. Ms. Secor is the management assistant to Scottsdale's mayor.

### **Matthew E. Breecher, District III**

Matthew E. Breecher, CPA, CISM, CISA, is an accounting and information systems specialist, with over 17 years professional experience. He currently provides information technology and management advisory services to local Arizona governments and small-to-medium businesses. Mr. Breecher is the managing partner of Breecher & Company, PC, a Phoenix-based professional services firm and a shareholder in Assurance Professionals, PC, a Scottsdale-based public accounting firm.

### **Derek Barber, District IV**

Derek Barber, CIA, CGAP, has a master's of business administration degree (with an emphasis in accounting) from Grand Canyon University. He formerly worked for the Maricopa County Internal Audit Department (2006-2010) as an Associate Auditor. He currently works as a business analyst for the American Express Financial Crimes Reporting Unit, and worked as a Financial Crimes Investigations Analyst immediately prior to this position.

### **Jay Zsorey, Financial Audit Director, Office of Auditor General**

Jay Zsorey, CPA, graduated from the University of Nevada and is the financial audit director of the Arizona Office of the Auditor General. During his career, Mr. Zsorey has managed the audits of many governmental entities in Arizona and was the audit manager for the annual financial statement and compliance audit of Maricopa County. He has extensive knowledge of government finance and governmental financial reporting requirements.

### **David H. Benton, Senior General Counsel, Maricopa County Attorney's Office**

### **Shelby Scharbach, County Chief Financial Officer**

Shelby Scharbach, CPA, CGFM, has a bachelor's degree in accounting and a master of public administration degree. Ms. Scharbach joined the Maricopa County Department of Finance in 1993, served as Deputy Finance Director from 2000-2008, and was appointed Chief Financial Officer in 2009. She serves on the National Association of Counties (NACo) Financial Services Advisory Committee and is the NACo appointee to the Public Finance Authority. She is Chair of the Maricopa County Deferred Compensation Committee, President of the Maricopa County Public Finance Corporation, and serves on the Board of Directors for the International Genomics Consortium.

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Christina Black, CIA, CGAP, Audit Supervisor  
Kimmie Wong, MPA, Senior Auditor  
Jenny Eng, Associate Auditor

